

## Information Item

### *Fiscal Policy and Analysis Committee*

#### Highlights of Governor's Proposed 2001-02 State Budget

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On Monday, January 10, 2001 Governor Gray Davis introduced his proposed budget for the State of California in the upcoming 2000-01 fiscal year. It proposes \$105 billion in non-federal fund spending (\$83 billion in State General Funds) and is the largest budget in State history. For California postsecondary education, the budget funds projected enrollment growth fully, provides additional monies for student financial aid, and expansion of teacher training institutes.

In April, staff will present a review of recommendations on the budget by the Legislative Analyst.

*Presenter:* Kevin G. Woolfork.



# Highlights of the Governor's Proposed 2001-02 State Budget

ON WEDNESDAY, January 10, 2001, Governor Gray Davis introduced his proposed budget for the State of California for the upcoming 2001-02 fiscal year. At nearly \$105 billion, including selected Bond and Special funds, this year's budget is the largest in State history. Below are some of the highlights of the budget.

## Spending summary

Display 1 presents a summary of State General Fund expenditures in the proposed 2001-02 budget. The display shows that State General Fund revenue growth is strong at present and is anticipated to remain strong in the foreseeable future, however at a more modest pace. The most recent estimates of State General Fund revenues for the past (1999-2000) and current (2000-01) fiscal years show that it is \$3.8 billion above prior estimates. The Department of Finance projects that General Fund revenues in 2001-02 could increase by an additional \$2.54 billion, or 3.3 percent from 2000-01.

**DISPLAY 1** *State General Fund Estimates in the Proposed 2001-02 State Budget (Dollars in Millions)*

	2000-2001 <sup>1</sup>	2001-2002 <sup>1</sup>	Year-to-year change	
			Percent	Dollars
Prior Year Balance	\$9,366	\$6,577	-29.8%	—
Revenues and Transfers	<u>\$76,899</u>	<u>\$79,434</u>	3.3%	—
<b>Total</b> Resources Available	<b>\$86,265</b>	<b>\$86,011</b>	-0.3%	-\$254
<b>TOTAL</b> Revised Expenditures	<u><u>\$79,708</u></u>	<u><u>\$82,853</u></u>	<u>3.9%</u>	<u>\$3,145</u>
<b>Estimated General Fund Balance</b>	<b>\$6,557</b>	<b>\$3,158</b>	—	<b>-\$3,399</b>
<b>State General Fund Reserves:</b>				
Reserves for Liquidation of Encumbrances	\$701	\$701		
Set-asides (legislative initiatives, litigation)	\$7	\$500		
Reserve for Economic Uncertainties	\$5,849	\$1,937		

1. Estimates based on information from the *Governor's Budget 2001-02*; amounts are expressed in millions of dollars.

Sources: California Department of Finance, California Postsecondary Education Commission staff analysis.

The Department of Finance's economic forecast for the next year (upon which proposed budget-year revenues and expenditure levels are based) shows continued substantial growth, although more modest than last year. Personal income tax revenues are forecast to increase by 9.4 percent for 2000-01 and 3.5 percent for 2001-02. Sale Tax revenues are expected to grow by 4.9 percent during the calendar year 2001 both at slower paces than in fiscal year 2000-01. Smaller tax revenue generators, such as the Bank and Corporation tax and the Insurance tax, are also expected to grow at a slower rate (1 percent or less) in the upcoming 2001-02 fiscal year. State economists note that there are some uncertainties in the State and national economies, such as the current energy crisis. These could impact revenue projections, most likely to the downward side.

Display 2 presents a summary of overall State General Fund expenditures in the proposed 2001-02 budget, by category. K-12 Education is proposed to grow by the greatest dollar amount (\$2.3 billion), while higher education's anticipated \$947 million increase produces the largest one-year percent increase (10.1 percent). As the display shows, every budgetary category except "Other Government Functions" is expected to receive funding increases in the upcoming fiscal year. Last year, 2000-01 spending in the "Other" category was initially proposed to decline by \$779 million from 1999-2000 levels, however it has actually grown by more than \$6 billion.

*DISPLAY 2 State General Funds Expenditures, by Budget Category (Dollars in Millions)*

	<u>2000-2001<sup>1</sup></u>	<u>2001-02<sup>1</sup></u>	<i>Year-to-year change</i>	
			<u>Percent</u>	<u>Dollars</u>
Health and Human Services	\$20,362	\$21,645	6.3%	\$1,283
Corrections	5,181	5,389	4.0%	208
K-12 Education	30,311	32,540	7.4%	2,229
Higher Education	9,395	10,342	10.1%	947
Other Government Functions <sup>2</sup>	14,459	12,937	- 10.5%	- 1,522
<b>Totals , All Programs</b>	<b>\$79,708</b>	<b>\$82,853</b>	<b>3.9%</b>	<b>\$3,145</b>

1. The information presented are *ESTIMATES*, based on details from the proposed 2001-02 Governor's budget.

2. The category *Other Government Functions* consists of the seven smallest funding categories, as are presented in Schedule 9 of the Appendix to the 2001-02 Governor's Budget.

Sources: California Department of Finance, California Postsecondary Education Commission staff analysis

**Higher education** Much of the funding proposed for the California State University and the University of California is called for under "Partnership" agreements the systems each negotiated with the Governor last spring. The agreements each contain funding principles and accountability measures in which the State provides sufficient resources to the systems and systems become

more effective and efficient in using these resources. The budget provides no new monies in 2001-02 for the California Community Colleges' "Partnership for Excellence" program (PFE) Budget but does build into its base last year's increase of \$155 million. Total authorized PFE total funding is currently \$300 million and, including this year's amount, PFE funding over the first four years of the program will be \$845 million.

Display 3 presents a summary of "State Determined Funds" (SDF) for the three public systems of California higher education budget is distributed. State Determined Funds are those sources over which the State or systems

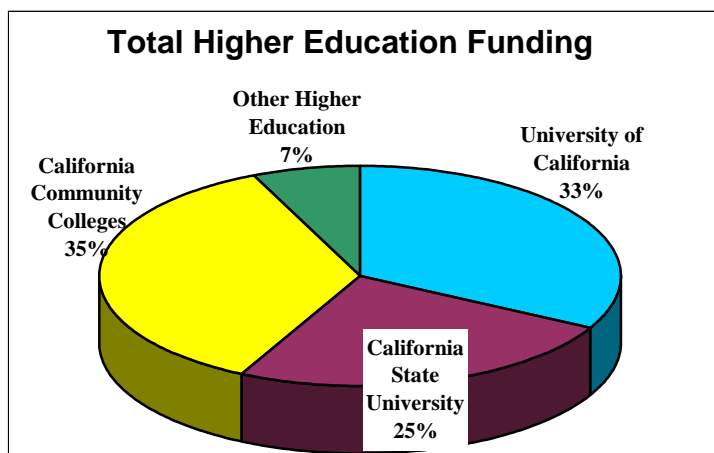
*DISPLAY 3 2001-02 "State Determined Funds" – General Purpose Funds, Lottery Funds, State School Funds, Local Revenues, and Student Fees Revenues for the Three Public Systems (Dollars in Millions)*

	<u>2000-01<sup>1</sup></u>	<u>2001-02<sup>1</sup></u>	<u>Year-to-year change</u>	
			<u>Percent</u>	<u>Dollars</u>
University of California	\$4,242	\$4,465	5.3%	\$223
California State University	3,176	3,396	6.9%	220
California Community Colleges	<u>4,514</u>	<u>4,879</u>	<u>8.1%</u>	<u>365</u>
<b>Totals , Postsecondary Education</b>	<b>\$11,932</b>	<b>\$12,740</b>	<b>6.8%</b>	<b>\$807.6</b>

1. The information presented are *ESTIMATES*, based on details from the proposed 2001-02 Governor's budget.
2. Includes general obligation bond interest and redemptions for the systems.

Sources: Governor's Budget Summary 2001-02, California Postsecondary Education Commission staff analysis.

exercise some direct policy control, in terms of its level or overall amount. The include both State and system General Purpose Funds, Local Property Tax revenues, California Lottery Funds, State School Funds, and Systemwide Student Fee revenues. The information shows that total SDF funding for California Community Colleges is anticipated to grow by \$365 million. The California State University is proposed to receive a 6.9 percent increase in these combined funds (\$220 million) and the University of California's proposed budget will grow 9.3 percent (\$223 million) in 2001-02.



Below, staff presents some of the highlights in the proposed 2001-02 State budget for California's colleges and universities:

*Enrollment and Base Funding Increases.* The Budget provides \$112 million to fund three percent growth in Full-time Equivalent (FTE) enrollments at the community colleges, which translates into an additional 30,871 students. The budget also proposes \$154 million to fund the statutory 3.91 percent cost-of-living adjustment (COLA) for both general purpose funds and categorical programs in the community colleges. The State University receives \$56 million for funded enrollment growth of 11,898 FTE students (3 percent growth) in 2001-02, bringing the system's total enrollment to 303,878. The Budget also includes \$12 million (3,138 FTES) to convert the State University's San Diego, Fullerton, Long Beach and San Francisco campuses to year-round operation. The Budget provides \$94 million for a 4 percent increase to the State University's State General Fund base, per the Partnership agreement.

For the University of California, the 2001-02 budget provides \$52 million for funded enrollment growth of approximately 5,700 FTE students, or 5.3 percent. The Budget also includes \$21 million to fund the full cost of existing summer enrollment (3,422 FTE) enrolled in year-round operation at the University's Berkeley, Los Angeles, and Santa Barbara campuses. Total system FTE enrollment at the University is estimated at 179,688 in 2001-02. Also, consistent with the Partnership, the budget provides \$120 million for a 4 percent increase to the University's State General Fund base.

For Hastings College of the Law, the budget proposes a 4-percent base budget increase and an additional one percent increase for the College's priorities. Total SDF for Hastings is projected to rise from just over \$29 million in the current year to more than \$30 million in 2001-02, for an increase of more than 4 percent.

*Student Fees and Financial Aid.* The proposed 2001-02 Budget maintains current systemwide student fee levels for all three public higher education systems. A total of \$38 million is provided to buy-out revenues that would be generated by mandatory student fee increases in the State University and University of California. Resident undergraduate systemwide student charges at the State University and University are at their lowest level since the early 1990s and have not been increased since 1994-95.

The Governor proposes \$632 million for the revised Cal Grant Awards program, a one-year increase of \$128 million (25 percent). This proposal funds current estimates of costs of the program – now known as the Cal Grant Entitlement and Competitive Award Program – which was adopted last year pursuant to SB 1644 (Ortiz, Chapter 403, Statutes of 2000). Per the revisions to the program, the Cal Grant A maximum tuition awards equal the mandatory systemwide fees at UC or CSU, or up to \$9,703 at an independent institution. The Cal Grant B subsistence award maximum is \$1,551 and the Cal Grant C award maximum is \$2,592 for tuition and fees plus up to \$576 for training-related costs. The 2001-02 budget proposes to increase the minimum number of new Cal Grant T awards to 3,000, with an award maximum of \$9,703. The Cal Grant T program pro-

vides tuition and fee funding for financially and academically eligible students to attend teacher credentialing programs. The Budget also provides the Student Aid Commission with nearly \$5 million to expand the capabilities of the Cal Grant computerized delivery system to meet the needs of revised Cal Grant Program.

For 2001–02, the budget proposes 6,500 new “Assumption Program of Loans for Education” (APLE) awards. In the APLE program, the State agrees to make up to \$19,000 in student loan payments over four years for students pursuing careers in teaching. The new budget also proposes a provision that APLE program participants teaching in the areas of special education, math, or science receive an additional \$1,000 a year, and if participants teach in a low-performing school they will receive an additional bonus of \$1,000 per year.

*Capital Outlay Funding.* The 2001-02 Budget provides \$715 million in combined State General and Bond funds for the systems’ capital building and construction programs. At the California Community Colleges, the budget proposes \$144 for capital outlay projects, including \$122 million for the completion of 53 previously approved projects and \$21 million for 23 new projects. The California State University is set to receive \$207 million for capital outlay expenditures, including \$104 million to complete 13 previously approved projects, \$97 million for 14 major new projects, and \$7 million for minor projects. The budget proposes \$512 million – including more than \$308 million in State General Funds – for capital outlay projects at the University of California. Major construction projects funded include the new UC Merced campus (\$160 million), the three University Institutes for Science and Innovation and start-up funding for a fourth one (\$75 million), and \$30 million General Fund to construct a teaching facility for the UCSF/Fresno Medical Center.

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**Segmental  
initiatives**

*The California Community Colleges* – The Governor’s proposed 2001-02 budget does not seek to augment the current-year \$300 million in base funding for the Community College’s Partnership for Excellence Program. The Budget proposes \$6.2 billion in combined State, local and student revenues for the community colleges, which it estimates is a 7.7 percent increase over the \$5.8 billion provided in 2000-01. These funds are proposed to continue several ongoing initiatives including the need for increased access to the colleges as enrollment demand grows over the next few years, as the Postsecondary Education Commission has projected. The college’s enrollment growth and cost-of-living adjustment funding will also help the system address needs for local workforce training, outreach and assistance programs for disadvantaged students, and improving transfer between all campuses and the State’s baccalaureate degree-granting systems.

The Budget sets aside \$62 million for community college part-time faculty compensation to assist districts in making part-time faculty salaries more comparable to full-time faculty salaries for similar work. \$4.7 mil-

lion is also provided to expand the number of part-time office hours funded at a 1:1 state-to-local match. The Commission has just completed a report on pay equity issues regarding part-time faculty in the community colleges.

The budget provides a total of \$20 million for instructional equipment (\$10 million) and scheduled maintenance and special repairs (\$10 million). These funds are proposed to help colleges purchase updated equipment and instructional materials and to complete scheduled maintenance and special repairs. Local districts must match the State's \$10 million for equipment replacement at the rate of one local dollar for every three State dollars. The \$10 million for special repairs may also be used hazardous substances removal, and Americans with Disabilities Act (ADA) compliance projects. The budget also provides \$1 million in State General Funds for Cañada College to develop a joint baccalaureate degree program with San Francisco State University. This allotment provides up to \$375,000 to design a four-year degree program and \$625,000 for physical facilities improvements, equipment, and modernization.

*The California State University* – The Budget proposes an increase of \$216 million in State General Funds for the State University, \$202 million relating to commitment in the Partnership Agreement. \$52 million in one-time funds provided last year in the 2000 Budget Act has been removed from the State University's budget. The budget provides \$16.6 million to buy-out projected increases in mandatory systemwide student fees.

Consistent with the Partnership, the Budget proposes \$23 million to fund the third year of a four-year plan to address budgetary shortfalls in selected areas of the State University's budget, including: ongoing building maintenance, instructional technology, instructional equipment replacement, and library materials. \$18.5 million is proposed for the Governor's K-12 Technology Training initiative to train, which will train teachers in the use of technology in the classroom. The budget proposes \$44 million in funding above the Partnership for a variety of initiatives. \$3 million is proposed to fund permanent fixed costs for start-up of the Channel Islands campus of the State University. This campus was approved by the California Postsecondary Education Commission as the twenty-third campus of the State University system in November and is scheduled to open in Fall 2002.

The budget proposes \$17.5 million in funding for 1,000 Governor's Teaching Fellowships. These awards are nonrenewable graduate teaching fellowships given to students who agree to teach at low-performing elementary and secondary schools for four years. In total, \$4.6 million is proposed for new and expanded State University applied research efforts, including: an agricultural research initiative, the Education and Research in Biotechnology program, expanded marine studies research, the Diagnostic Writing Service, and the development of a Central Valley Economic Incubator at CSU Fresno.

The 2001-02 budget proposes funding for year-round instruction at four State University campuses – San Diego, Fullerton, Long Beach, and San Francisco – providing more than \$12 million to convert 3,128 of summer session FTES enrollment to State support.

*The University of California* – The 2001-02 Budget provides \$311 million in State General Fund, reduced by \$108 million in one-time funding provided last year. \$26 million is allocated to avoid increases in mandatory systemwide student fees and fees for professional school students. The University proposes to spend \$8 million of its general purpose funds in 2001-02 for a multi-year plan to return the University's student-faculty ratio to its 17.6:1 level in the early 1990s; the University's current student-faculty ratio is 18.6:1.

The budget provides \$30 million for year three of a four-year plan to address budgetary shortfalls in areas of the University's budget, including: building maintenance, instructional technology, instructional equipment replacement, and library materials. As for the California State University, the budget provides State support (\$20.7 million) for summer instruction at three UC campuses – Berkeley, Los Angeles, and Santa Barbara campuses. The Governor proposes almost \$6 in permanent funding above the University's base for initiatives in the areas of graduate and professional school outreach, and student retention services. \$1 million of this is proposed for ASSIST – Articulation System Stimulating Interinstitutional Student Transfer – an intersegmental program providing computerized data base of transfer and articulation. The three public systems have adopted ASSIST as the official State repository of transfer information.

In addition to the \$160 in construction funds allotted to the new UC Merced campus, the budget proposes \$2 million for faculty recruitment efforts at the new campus. The budget provides \$3 million to expand student retention services including tutoring, summer bridge and orientation programs and \$1.5 million increase for graduate and professional school outreach programs that encourage undergraduates to continue their studies.

The budget proposes \$75 million for the second year of the University's California Institutes for Science and Innovation, created by the Governor in 2000-01. This initiative is designed to develop three world-class centers for research in science and technology, anchored at various UC campuses. State funding for this program is matched on at least a two-to-one basis (2 non-State dollars for every 1 State dollar). \$33 million is also proposed in the budget to develop a fourth institute – a Center for Information Technology at UC Berkeley.

There are many new and expanded research initiatives in the University of California budget, including \$35 million in one-time funding for selected research aimed at areas of economic importance to the state. Some of these initiatives are described in Display 4.



*DISPLAY 4 Selected University of California Research Initiatives Proposed in the 2001-02 State Budget*

Funding	Description of Research Initiatives
\$ 5 million	Research efforts in engineering and computer science to help California's high-technology industries. These funds will provide support for graduate student researchers.
\$ 5 million	Environmental science research that will help assess the impact of generation, utilization, and distribution of energy on California's atmosphere, and transform environmental field stations into UC observatories for California's environment. One-half of the funds will be used to support graduate student researchers
\$ 3 million	Research into long-term solutions to Pierce's disease, an insect-transmitted bacterium that threatens California's wine, table, and raisin grape industry. One-half of the funds will be used to support graduate student researchers
\$18 million	Development of Internet2, a high-speed national data transmission network, to assure that faculty and students have the access they need to encourage cooperative research initiatives within UC and with other countries. Prior-year UC Internet2 funding was used to link the northern and southern "hubs" of the network and to improve the campus infrastructure needed to provide direct access to Internet2.
\$ 4 million	Biomarker research through the Center for the Medical Investigation of Neurodevelopmental Disorders (the MIND Institute). This research will attempt to determine whether specific biomarkers are present at birth in children who later develop certain neurodevelopmental disorders.
\$ 2 million	Research for the MIND Institute to support related investigations in the areas of animal models, immunology, brain damage, molecular biology, and genetics.

*Source:* The University of California, Office of the President.

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**K-12 education** The Governor's 2001-02 State budget proposes expenditures from selected sources of more than \$53 billion for public elementary and secondary education in the 2001-02 Budget. K-12 Proposition 98 is estimated to be more than \$40 billion in the proposed budget, and increase of \$3 billion over the current year. The major funding adjustments proposed for K-12 in the budget include more than \$1 billion to provide the statutory COLA of 3.91 percent (as was described above for the community colleges) for K-12 school districts and county offices of education. Another \$211 million is proposed to fund growth and the statutory COLA for categorical programs, adult education, Regional Occupational Centers and Programs, and other instructional services. \$324 million is allocated to fund statutory enrollment growth for school district and county offices of education apportionments.

For 2000-01, the budget "over appropriates Proposition 98, that is provides funding in excess of the calculated minimum guarantee, by \$555 million and this grows to nearly \$2 billion in the proposed budget. Dis-

play 5, below presents a brief summary of overall K-12 funding and averages of per-pupil spending from all sources and for funds covered under Proposition 98.

**DISPLAY 5 K-12 Expenditures in the Proposed in the 2001-02 State Budget**

	Proposed 2001-02 K-12 Funding, by Source (\$ in millions)			Per-pupil Spending, from all Sources		
	Funding	\$ Change	% Change	Est. 2000-01	Proj. 2001-02	% Change
State General Funds	\$31,190.1	\$2,229	7.4%	\$8,850	\$9,267	4.7%
Local Funds	11,759.1	909	8.3%	Per-pupil Spending, Proposition 98		
Lottery Funds	826.6	----	----	\$7,174	\$6,695	7.2%
Federal Funds	4,523.5	-141	-2.9%	K-12 Average Daily Attendance		
Other Sources	<u>4,987.8</u>	<u>-52</u>	----	Est. 2000-01	Proj. 2001-02	% Change
Total	\$53,288.1	\$2,945	5.8%	5,689,105	5,750,105	1.1%

*Source:* Governor's Proposed \$2001-02 Budget.

The budget contains many new initiatives for K-12 education, the most expensive of which is a \$335 million for the first year of a three year proposal to provide more than a quarter-million teachers and instructional aides with standards-based professional development training in mathematics and reading. This program will be modeled after the existing Professional Development Institutes. Additionally the budget proposes \$100 million as the first increment in a three-year initiative to increase the length of the instructional year for the State's middle schools by 30 days to 210 days in total. The budget estimates the out-year costs of this voluntary program at \$450 million for the second year and \$900 million for the third year. The funding is to provide middle schools for at least 2 grade levels among 6, 7, 8, and 9 with an annual \$770 per student incentive for extending the school year by 30 days and meeting other program requirements.

The Governor proposes a \$15 million professional development program for K-12 school principals and vice-principals. The program's goals are to enhance the leadership skills and content knowledge of principals and vice principals through standards-based training under this program. The Budget also includes \$30 million in incentive funding for school districts to increase the number of students enrolled in Algebra classes, at a rate of \$50 for each student already taking Algebra and the Algebra standards-based test and \$100 for each additional pupil who takes the Algebra standards-based test. The funds can also be used to help improve students' pre-Algebra skills and to fund efforts to attract and retain Algebra teachers.

The Budget provides \$14 million to implement the first year of the Kindergarten Readiness Pilot Program, which was created last year in AB 25

(Chapter 1022, Statutes of 2000). Under this program, school districts that choose to participate must meet the following conditions in order to receive these funds:

1. Raise the minimum age of admission to kindergarten for its pupils by three months;
2. Provide 110 to 150 hours of pre-kindergarten readiness instruction for half the number of kindergarten pupils in the district;
3. Evaluate the long-term benefits of changes in academic achievement, and;
4. Assess reduction in behavioral problems, kindergarten retention, and other issues.

Among the other programmatic initiatives proposed for K-12 in the budget are: \$5 million to expand the Academic Volunteer and Mentor Service Program, \$10 million to continue the Student Academic Partnerships Program, \$28 million for workbooks for the standards-based Standardized Testing and Assessment Reporting program, (the “STAR” exam) and the High School Exit Exam (HSEE), and a \$123 million augmentation to fully fund (at \$350 million) the Governor’s Performance Awards at \$150 per eligible test taker in grades 2 through 11.

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**Other initiatives**

*Energy* – The Budget includes \$1 billion for programs to increase energy efficiency, reduce consumption, and increase the supply of electricity to help deal with the State’s energy crisis. These programs are designed to assist residents, small businesses, industry, agriculture, and State and local governments to meet the energy challenge confronting California. These proposals are to be developed in consultation with the Legislature during the 2001-02 Legislative Session.

*Air and Water Quality* – The Budget includes more than \$7 billion dollars for natural resources management and environmental protection efforts. Among the programs funded is one designed to reduce contaminated runoff that pollutes our public beaches and affects public health, another to acquire and restore coastal wetlands and habitat, and one to improve access to beaches and coastal trails. Other initiatives increase funding for a program to encourage the purchase zero emission vehicles to reduce air pollution through the replacement of conventional diesel engines with clean burning alternatives. The proposed budget includes \$70 million for acquisitions and improvement projects on rivers throughout the State and for specific river parkway projects on the Los Angeles, San Joaquin, Tuolumne, Sacramento, and Guadalupe rivers.

*Health and Human Services* – The Budget proposes more than \$62 billion in combined State and federal funds for public health and assistance programs. Among the major initiatives proposed is \$202 million to expand coverage under the Healthy Families Program to include uninsured adult

parents of children already covered who have incomes between 100 and 200 percent of the federal poverty level. \$115 million is also allocated for caseload growth associated with the Healthy Families program. In the Medi-Cal program, the budget proposes to use a \$170 million of the State's Tobacco Settlement Fund for selected Medi-Cal expenses. The budget also allocates \$350 million to hospitals as a one-time payment to settle issues related to previous years' reimbursement rates for hospital outpatient services and \$128 million to increase these rates by 30 percent as of July 1, 2001. Another half-billion dollars is proposed for initiatives to maintain Medi-Cal coverage to adults with eligible children and who fall below 100 percent of the poverty level and to continue Medi-cal coverage for eligible children up to age 19.

*Tax and User Fee reductions* – The Budget estimates that budget-year tax savings resulting from tax relief measures adopted last year will amount to \$2.3 billion. For individual taxpayers, beginning with the 2001 calendar year, the State will have reduced motor vehicle license fees by 67.5 percent, an estimated savings to vehicle owners of \$3.7 billion in 2001-02. For corporations, areas of tax relief include a reduction in the tax rate for all corporations, special rate provisions for “subchapter S” corporations, carryover of net operating losses, and credits for manufacturing investment and research and development.

As of January 1, 2001, the State sales tax rate was reduced from 5 percent to 4.75 percent, as a result of the “Sales Tax Trigger” provision enacted 1991 that requires a quarter-cent reduction in this tax rate if the State surplus exceeds 4 percent of General Fund revenues and transfers during a two fiscal-year period. The rate will return to 5 percent next January unless the surplus again exceeds this statutory threshold. The 2001-02 budget revenue forecast is based on the assumption that the surplus for the budget year will not be sufficient to trigger an extension of that lower rate into 2002. This provision lowering the State portion of the sales tax rate does not affect sales tax rate increases adopted at the local level.

*Public Health and Safety* – The Budget includes \$40 million for disbursement to High Intensity Drug Trafficking Areas (HIDTAs) throughout the State. HIDTAs are multi-jurisdictional law enforcement collaboratives dedicated to eliminating the production and distribution of illegal drugs in California. Another \$11 million is allocated to the California Methamphetamine Strategy (CALMS) program, which is operated by the Department of Justice. CALMS is a systematic approach that targets all facets of methamphetamine production and trafficking with an emphasis on preventing chemicals from being sold to criminals.

*Local government* – The Budget provides \$250 million in one-time discretionary funding for local government entities, to be allocated 50 percent on a per-capita basis and 50 percent based on local governments' contribution to their counties' respective Educational Revenue Augmentation Fund (ERAF). Several other local government initiatives

are funded in the areas of public safety, housing and community development, health and human services and transportation.

*Transportation* – The Budget proposes almost \$10 billion in 2001-02 expenditures for Caltrans from federal funds, various State funds and reimbursements to improve transportation. This is an increase of \$1.3 billion in total funds over 2000-01 and includes an increase in State General Funds of \$934 million. In 2000, the State established the Traffic Congestion Relief Fund (TCRF), a six-year, \$7 billion enhanced funding plan for state and local transportation needs. The TCRF is funded through the Transportation Investment Fund (TIF), which receives revenues from a quarterly transfer of the General Fund share of the sales tax on gasoline. Due to growth in gasoline sales tax revenues, the 2000 estimate for TIF is now more than \$8 billion, rather than the \$7 billion earlier. Specific CalTrans initiatives in the Budget include \$8 million for the “Advanced Toll Collection and Accounting System” on seven San Francisco Bay area toll bridges. This system allows the participating, equipped vehicles to progress through toll booths and be electronically scanned for later billing. \$21 million is allocated to double-track railways between Sacramento and Davis for the Capitol Corridor commuter train.

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**Summary** The Governor’s proposed State budget for the upcoming 2001-02 fiscal year continues many of the past two budget’s K-12 education themes, while relying to a greater extent upon one-time appropriations as a safeguard against declines in tax revenues. For California’s colleges and universities, the proposed State budget continues a year trend of increased investments, with the focus on collaborative efforts with K-12 education and for specific research initiatives. The budget fully funds public system enrollment growth and provides funds for cost-of-living adjustments. The budget also allocates revenues above those called for in the “Partnership” agreements with the California State and the University of California.

The State revenue picture continues to look bright, as tax revenues are again running ahead of expectations. However, the State faces the potential of revenue reductions over the coming year, if the economy cools off and the investment markets level off or decline. This is because much of the unanticipated gain in revenues these past 3 years has been derived from market activity. In addition, the tremendous surge in energy prices over the past 8 months has created a problem for California’s citizenry, local governments, and private sector entities and could become critical by this summer. Suggested solutions to the burgeoning energy crisis are all anticipated to be quite costly and how those costs will be borne is an open question.

As the State Legislature deliberates the proposed Governor’s budget in the coming months, public policy priorities will be established and the State spending plan for 2001-02 will become more focused.

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# Highlights of the Governor's Proposed 2001-02 State Budget

ON WEDNESDAY, January 10, 2001, Governor Gray Davis introduced his proposed budget for the State of California for the upcoming 2001-02 fiscal year. At nearly \$105 billion, including selected Bond and Special funds, this year's budget is the largest in State history. Below are some of the highlights of the budget.

## Spending summary

Display 1 presents a summary of State General Fund expenditures in the proposed 2001-02 budget. The display shows that State General Fund revenue growth is strong at present and is anticipated to remain strong in the foreseeable future, however at a more modest pace. The most recent estimates of State General Fund revenues for the past (1999-2000) and current (2000-01) fiscal years show that it is \$3.8 billion above prior estimates. The Department of Finance projects that General Fund revenues in 2001-02 could increase by an additional \$2.54 billion, or 3.3 percent from 2000-01.

**DISPLAY 1** *State General Fund Estimates in the Proposed 2001-02 State Budget (Dollars in Millions)*

	2000-2001 <sup>1</sup>	2001-2002 <sup>1</sup>	Year-to-year change	
			Percent	Dollars
Prior Year Balance	\$9,366	\$6,577	-29.8%	—
Revenues and Transfers	<u>\$76,899</u>	<u>\$79,434</u>	3.3%	—
<b>Total</b> Resources Available	<b>\$86,265</b>	<b>\$86,011</b>	-0.3%	-\$254
<b>TOTAL</b> Revised Expenditures	<u><u>\$79,708</u></u>	<u><u>\$82,853</u></u>	<u>3.9%</u>	<u>\$3,145</u>
<b>Estimated General Fund Balance</b>	<b>\$6,557</b>	<b>\$3,158</b>	—	<b>-\$3,399</b>
<b>State General Fund Reserves:</b>				
Reserves for Liquidation of Encumbrances	\$701	\$701		
Set-asides (legislative initiatives, litigation)	\$7	\$500		
Reserve for Economic Uncertainties	\$5,849	\$1,937		

1. Estimates based on information from the *Governor's Budget 2001-02*; amounts are expressed in millions of dollars.

Sources: California Department of Finance, California Postsecondary Education Commission staff analysis.

The Department of Finance's economic forecast for the next year (upon which proposed budget-year revenues and expenditure levels are based) shows continued substantial growth, although more modest than last year. Personal income tax revenues are forecast to increase by 9.4 percent for 2000-01 and 3.5 percent for 2001-02. Sale Tax revenues are expected to grow by 4.9 percent during the calendar year 2001 both at slower paces than in fiscal year 2000-01. Smaller tax revenue generators, such as the Bank and Corporation tax and the Insurance tax, are also expected to grow at a slower rate (1 percent or less) in the upcoming 2001-02 fiscal year. State economists note that there are some uncertainties in the State and national economies, such as the current energy crisis. These could impact revenue projections, most likely to the downward side.

Display 2 presents a summary of overall State General Fund expenditures in the proposed 2001-02 budget, by category. K-12 Education is proposed to grow by the greatest dollar amount (\$2.3 billion), while higher education's anticipated \$947 million increase produces the largest one-year percent increase (10.1 percent). As the display shows, every budgetary category except "Other Government Functions" is expected to receive funding increases in the upcoming fiscal year. Last year, 2000-01 spending in the "Other" category was initially proposed to decline by \$779 million from 1999-2000 levels, however it has actually grown by more than \$6 billion.

*DISPLAY 2 State General Funds Expenditures, by Budget Category (Dollars in Millions)*

	<u>2000-2001<sup>1</sup></u>	<u>2001-02<sup>1</sup></u>	<i>Year-to-year change</i>	
			<u>Percent</u>	<u>Dollars</u>
Health and Human Services	\$20,362	\$21,645	6.3%	\$1,283
Corrections	5,181	5,389	4.0%	208
K-12 Education	30,311	32,540	7.4%	2,229
Higher Education	9,395	10,342	10.1%	947
Other Government Functions <sup>2</sup>	14,459	12,937	- 10.5%	- 1,522
<b>Totals , All Programs</b>	<b>\$79,708</b>	<b>\$82,853</b>	<b>3.9%</b>	<b>\$3,145</b>

1. The information presented are *ESTIMATES*, based on details from the proposed 2001-02 Governor's budget.

2. The category *Other Government Functions* consists of the seven smallest funding categories, as are presented in Schedule 9 of the Appendix to the 2001-02 Governor's Budget.

Sources: California Department of Finance, California Postsecondary Education Commission staff analysis

**Higher education** Much of the funding proposed for the California State University and the University of California is called for under "Partnership" agreements the systems each negotiated with the Governor last spring. The agreements each contain funding principles and accountability measures in which the State provides sufficient resources to the systems and systems become



more effective and efficient in using these resources. The budget provides no new monies in 2001-02 for the California Community Colleges' "Partnership for Excellence" program (PFE) Budget but does build into its base last year's increase of \$155 million. Total authorized PFE total funding is currently \$300 million and, including this year's amount, PFE funding over the first four years of the program will be \$845 million.

Display 3 presents a summary of "State Determined Funds" (SDF) for the three public systems of California higher education budget is distributed. State Determined Funds are those sources over which the State or systems

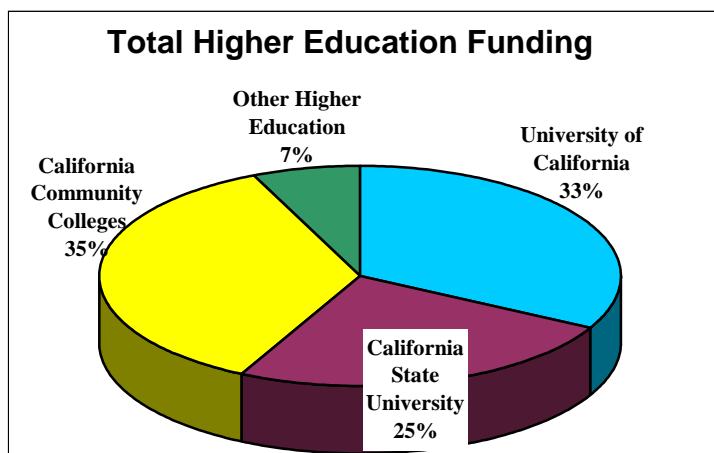
*DISPLAY 3 2001-02 "State Determined Funds" – General Purpose Funds, Lottery Funds, State School Funds, Local Revenues, and Student Fees Revenues for the Three Public Systems (Dollars in Millions)*

	<u>2000-01<sup>1</sup></u>	<u>2001-02<sup>1</sup></u>	<u>Year-to-year change</u>	
			<u>Percent</u>	<u>Dollars</u>
University of California	\$4,242	\$4,465	5.3%	\$223
California State University	3,176	3,396	6.9%	220
California Community Colleges	<u>4,514</u>	<u>4,879</u>	<u>8.1%</u>	<u>365</u>
<b>Totals , Postsecondary Education</b>	<b>\$11,932</b>	<b>\$12,740</b>	<b>6.8%</b>	<b>\$807.6</b>

1. The information presented are *ESTIMATES*, based on details from the proposed 2001-02 Governor's budget.
2. Includes general obligation bond interest and redemptions for the systems.

Sources: Governor's Budget Summary 2001-02, California Postsecondary Education Commission staff analysis.

exercise some direct policy control, in terms of its level or overall amount. The include both State and system General Purpose Funds, Local Property Tax revenues, California Lottery Funds, State School Funds, and Systemwide Student Fee revenues. The information shows that total SDF funding for California Community Colleges is anticipated to grow by \$365 million. The California State University is proposed to receive a 6.9 percent increase in these combined funds (\$220 million) and the University of California's proposed budget will grow 9.3 percent (\$223 million) in 2001-02.



Below, staff presents some of the highlights in the proposed 2001-02 State budget for California's colleges and universities:

*Enrollment and Base Funding Increases.* The Budget provides \$112 million to fund three percent growth in Full-time Equivalent (FTE) enrollments at the community colleges, which translates into an additional 30,871 students. The budget also proposes \$154 million to fund the statutory 3.91 percent cost-of-living adjustment (COLA) for both general purpose funds and categorical programs in the community colleges. The State University receives \$56 million for funded enrollment growth of 11,898 FTE students (3 percent growth) in 2001-02, bringing the system's total enrollment to 303,878. The Budget also includes \$12 million (3,138 FTES) to convert the State University's San Diego, Fullerton, Long Beach and San Francisco campuses to year-round operation. The Budget provides \$94 million for a 4 percent increase to the State University's State General Fund base, per the Partnership agreement.

For the University of California, the 2001-02 budget provides \$52 million for funded enrollment growth of approximately 5,700 FTE students, or 5.3 percent. The Budget also includes \$21 million to fund the full cost of existing summer enrollment (3,422 FTE) enrolled in year-round operation at the University's Berkeley, Los Angeles, and Santa Barbara campuses. Total system FTE enrollment at the University is estimated at 179,688 in 2001-02. Also, consistent with the Partnership, the budget provides \$120 million for a 4 percent increase to the University's State General Fund base.

For Hastings College of the Law, the budget proposes a 4-percent base budget increase and an additional one percent increase for the College's priorities. Total SDF for Hastings is projected to rise from just over \$29 million in the current year to more than \$30 million in 2001-02, for an increase of more than 4 percent.

*Student Fees and Financial Aid.* The proposed 2001-02 Budget maintains current systemwide student fee levels for all three public higher education systems. A total of \$38 million is provided to buy-out revenues that would be generated by mandatory student fee increases in the State University and University of California. Resident undergraduate systemwide student charges at the State University and University are at their lowest level since the early 1990s and have not been increased since 1994-95.

The Governor proposes \$632 million for the revised Cal Grant Awards program, a one-year increase of \$128 million (25 percent). This proposal funds current estimates of costs of the program – now known as the Cal Grant Entitlement and Competitive Award Program – which was adopted last year pursuant to SB 1644 (Ortiz, Chapter 403, Statutes of 2000). Per the revisions to the program, the Cal Grant A maximum tuition awards equal the mandatory systemwide fees at UC or CSU, or up to \$9,703 at an independent institution. The Cal Grant B subsistence award maximum is \$1,551 and the Cal Grant C award maximum is \$2,592 for tuition and fees plus up to \$576 for training-related costs. The 2001-02 budget proposes to increase the minimum number of new Cal Grant T awards to 3,000, with an award maximum of \$9,703. The Cal Grant T program pro-

vides tuition and fee funding for financially and academically eligible students to attend teacher credentialing programs. The Budget also provides the Student Aid Commission with nearly \$5 million to expand the capabilities of the Cal Grant computerized delivery system to meet the needs of revised Cal Grant Program.

For 2001–02, the budget proposes 6,500 new “Assumption Program of Loans for Education” (APLE) awards. In the APLE program, the State agrees to make up to \$19,000 in student loan payments over four years for students pursuing careers in teaching. The new budget also proposes a provision that APLE program participants teaching in the areas of special education, math, or science receive an additional \$1,000 a year, and if participants teach in a low-performing school they will receive an additional bonus of \$1,000 per year.

*Capital Outlay Funding.* The 2001-02 Budget provides \$715 million in combined State General and Bond funds for the systems’ capital building and construction programs. At the California Community Colleges, the budget proposes \$144 for capital outlay projects, including \$122 million for the completion of 53 previously approved projects and \$21 million for 23 new projects. The California State University is set to receive \$207 million for capital outlay expenditures, including \$104 million to complete 13 previously approved projects, \$97 million for 14 major new projects, and \$7 million for minor projects. The budget proposes \$512 million – including more than \$308 million in State General Funds – for capital outlay projects at the University of California. Major construction projects funded include the new UC Merced campus (\$160 million), the three University Institutes for Science and Innovation and start-up funding for a fourth one (\$75 million), and \$30 million General Fund to construct a teaching facility for the UCSF/Fresno Medical Center.

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**Segmental  
initiatives**

*The California Community Colleges* – The Governor’s proposed 2001-02 budget does not seek to augment the current-year \$300 million in base funding for the Community College’s Partnership for Excellence Program. The Budget proposes \$6.2 billion in combined State, local and student revenues for the community colleges, which it estimates is a 7.7 percent increase over the \$5.8 billion provided in 2000-01. These funds are proposed to continue several ongoing initiatives including the need for increased access to the colleges as enrollment demand grows over the next few years, as the Postsecondary Education Commission has projected. The college’s enrollment growth and cost-of-living adjustment funding will also help the system address needs for local workforce training, outreach and assistance programs for disadvantaged students, and improving transfer between all campuses and the State’s baccalaureate degree-granting systems.

The Budget sets aside \$62 million for community college part-time faculty compensation to assist districts in making part-time faculty salaries more comparable to full-time faculty salaries for similar work. \$4.7 mil-

lion is also provided to expand the number of part-time office hours funded at a 1:1 state-to-local match. The Commission has just completed a report on pay equity issues regarding part-time faculty in the community colleges.

The budget provides a total of \$20 million for instructional equipment (\$10 million) and scheduled maintenance and special repairs (\$10 million). These funds are proposed to help colleges purchase updated equipment and instructional materials and to complete scheduled maintenance and special repairs. Local districts must match the State's \$10 million for equipment replacement at the rate of one local dollar for every three State dollars. The \$10 million for special repairs may also be used hazardous substances removal, and Americans with Disabilities Act (ADA) compliance projects. The budget also provides \$1 million in State General Funds for Cañada College to develop a joint baccalaureate degree program with San Francisco State University. This allotment provides up to \$375,000 to design a four-year degree program and \$625,000 for physical facilities improvements, equipment, and modernization.

*The California State University* – The Budget proposes an increase of \$216 million in State General Funds for the State University, \$202 million relating to commitment in the Partnership Agreement. \$52 million in one-time funds provided last year in the 2000 Budget Act has been removed from the State University's budget. The budget provides \$16.6 million to buy-out projected increases in mandatory systemwide student fees.

Consistent with the Partnership, the Budget proposes \$23 million to fund the third year of a four-year plan to address budgetary shortfalls in selected areas of the State University's budget, including: ongoing building maintenance, instructional technology, instructional equipment replacement, and library materials. \$18.5 million is proposed for the Governor's K-12 Technology Training initiative to train, which will train teachers in the use of technology in the classroom. The budget proposes \$44 million in funding above the Partnership for a variety of initiatives. \$3 million is proposed to fund permanent fixed costs for start-up of the Channel Islands campus of the State University. This campus was approved by the California Postsecondary Education Commission as the twenty-third campus of the State University system in November and is scheduled to open in Fall 2002.

The budget proposes \$17.5 million in funding for 1,000 Governor's Teaching Fellowships. These awards are nonrenewable graduate teaching fellowships given to students who agree to teach at low-performing elementary and secondary schools for four years. In total, \$4.6 million is proposed for new and expanded State University applied research efforts, including: an agricultural research initiative, the Education and Research in Biotechnology program, expanded marine studies research, the Diagnostic Writing Service, and the development of a Central Valley Economic Incubator at CSU Fresno.

The 2001-02 budget proposes funding for year-round instruction at four State University campuses – San Diego, Fullerton, Long Beach, and San Francisco – providing more than \$12 million to convert 3,128 of summer session FTES enrollment to State support.

*The University of California* – The 2001-02 Budget provides \$311 million in State General Fund, reduced by \$108 million in one-time funding provided last year. \$26 million is allocated to avoid increases in mandatory systemwide student fees and fees for professional school students. The University proposes to spend \$8 million of its general purpose funds in 2001-02 for a multi-year plan to return the University's student-faculty ratio to its 17.6:1 level in the early 1990s; the University's current student-faculty ratio is 18.6:1.

The budget provides \$30 million for year three of a four-year plan to address budgetary shortfalls in areas of the University's budget, including: building maintenance, instructional technology, instructional equipment replacement, and library materials. As for the California State University, the budget provides State support (\$20.7 million) for summer instruction at three UC campuses – Berkeley, Los Angeles, and Santa Barbara campuses. The Governor proposes almost \$6 in permanent funding above the University's base for initiatives in the areas of graduate and professional school outreach, and student retention services. \$1 million of this is proposed for ASSIST – Articulation System Stimulating Interinstitutional Student Transfer – an intersegmental program providing computerized data base of transfer and articulation. The three public systems have adopted ASSIST as the official State repository of transfer information.

In addition to the \$160 in construction funds allotted to the new UC Merced campus, the budget proposes \$2 million for faculty recruitment efforts at the new campus. The budget provides \$3 million to expand student retention services including tutoring, summer bridge and orientation programs and \$1.5 million increase for graduate and professional school outreach programs that encourage undergraduates to continue their studies.

The budget proposes \$75 million for the second year of the University's California Institutes for Science and Innovation, created by the Governor in 2000-01. This initiative is designed to develop three world-class centers for research in science and technology, anchored at various UC campuses. State funding for this program is matched on at least a two-to-one basis (2 non-State dollars for every 1 State dollar). \$33 million is also proposed in the budget to develop a fourth institute – a Center for Information Technology at UC Berkeley.

There are many new and expanded research initiatives in the University of California budget, including \$35 million in one-time funding for selected research aimed at areas of economic importance to the state. Some of these initiatives are described in Display 4.

*DISPLAY 4 Selected University of California Research Initiatives Proposed in the 2001-02 State Budget*

Funding	Description of Research Initiatives
\$ 5 million	Research efforts in engineering and computer science to help California's high-technology industries. These funds will provide support for graduate student researchers.
\$ 5 million	Environmental science research that will help assess the impact of generation, utilization, and distribution of energy on California's atmosphere, and transform environmental field stations into UC observatories for California's environment. One-half of the funds will be used to support graduate student researchers
\$ 3 million	Research into long-term solutions to Pierce's disease, an insect-transmitted bacterium that threatens California's wine, table, and raisin grape industry. One-half of the funds will be used to support graduate student researchers
\$18 million	Development of Internet2, a high-speed national data transmission network, to assure that faculty and students have the access they need to encourage cooperative research initiatives within UC and with other countries. Prior-year UC Internet2 funding was used to link the northern and southern "hubs" of the network and to improve the campus infrastructure needed to provide direct access to Internet2.
\$ 4 million	Biomarker research through the Center for the Medical Investigation of Neurodevelopmental Disorders (the MIND Institute). This research will attempt to determine whether specific biomarkers are present at birth in children who later develop certain neurodevelopmental disorders.
\$ 2 million	Research for the MIND Institute to support related investigations in the areas of animal models, immunology, brain damage, molecular biology, and genetics.

*Source:* The University of California, Office of the President.

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**K-12 education** The Governor's 2001-02 State budget proposes expenditures from selected sources of more than \$53 billion for public elementary and secondary education in the 2001-02 Budget. K-12 Proposition 98 is estimated to be more than \$40 billion in the proposed budget, and increase of \$3 billion over the current year. The major funding adjustments proposed for K-12 in the budget include more than \$1 billion to provide the statutory COLA of 3.91 percent (as was described above for the community colleges) for K-12 school districts and county offices of education. Another \$211 million is proposed to fund growth and the statutory COLA for categorical programs, adult education, Regional Occupational Centers and Programs, and other instructional services. \$324 million is allocated to fund statutory enrollment growth for school district and county offices of education apportionments.

For 2000-01, the budget "over appropriates Proposition 98, that is provides funding in excess of the calculated minimum guarantee, by \$555 million and this grows to nearly \$2 billion in the proposed budget. Dis-

play 5, below presents a brief summary of overall K-12 funding and averages of per-pupil spending from all sources and for funds covered under Proposition 98.

**DISPLAY 5 K-12 Expenditures in the Proposed in the 2001-02 State Budget**

	Proposed 2001-02 K-12 Funding, by Source (\$ in millions)			Per-pupil Spending, from all Sources		
	Funding	\$ Change	% Change	Est. 2000-01	Proj. 2001-02	% Change
State General Funds	\$31,190.1	\$2,229	7.4%	\$8,850	\$9,267	4.7%
Local Funds	11,759.1	909	8.3%	Per-pupil Spending, Proposition 98		
Lottery Funds	826.6	----	----	\$7,174	\$6,695	7.2%
Federal Funds	4,523.5	-141	-2.9%	K-12 Average Daily Attendance		
Other Sources	<u>4,987.8</u>	<u>-52</u>	----	Est. 2000-01	Proj. 2001-02	% Change
Total	\$53,288.1	\$2,945	5.8%	5,689,105	5,750,105	1.1%

*Source:* Governor's Proposed \$2001-02 Budget.

The budget contains many new initiatives for K-12 education, the most expensive of which is a \$335 million for the first year of a three year proposal to provide more than a quarter-million teachers and instructional aides with standards-based professional development training in mathematics and reading. This program will be modeled after the existing Professional Development Institutes. Additionally the budget proposes \$100 million as the first increment in a three-year initiative to increase the length of the instructional year for the State's middle schools by 30 days to 210 days in total. The budget estimates the out-year costs of this voluntary program at \$450 million for the second year and \$900 million for the third year. The funding is to provide middle schools for at least 2 grade levels among 6, 7, 8, and 9 with an annual \$770 per student incentive for extending the school year by 30 days and meeting other program requirements.

The Governor proposes a \$15 million professional development program for K-12 school principals and vice-principals. The program's goals are to enhance the leadership skills and content knowledge of principals and vice principals through standards-based training under this program. The Budget also includes \$30 million in incentive funding for school districts to increase the number of students enrolled in Algebra classes, at a rate of \$50 for each student already taking Algebra and the Algebra standards-based test and \$100 for each additional pupil who takes the Algebra standards-based test. The funds can also be used to help improve students' pre-Algebra skills and to fund efforts to attract and retain Algebra teachers.

The Budget provides \$14 million to implement the first year of the Kindergarten Readiness Pilot Program, which was created last year in AB 25

(Chapter 1022, Statutes of 2000). Under this program, school districts that choose to participate must meet the following conditions in order to receive these funds:

1. Raise the minimum age of admission to kindergarten for its pupils by three months;
2. Provide 110 to 150 hours of pre-kindergarten readiness instruction for half the number of kindergarten pupils in the district;
3. Evaluate the long-term benefits of changes in academic achievement, and;
4. Assess reduction in behavioral problems, kindergarten retention, and other issues.

Among the other programmatic initiatives proposed for K-12 in the budget are: \$5 million to expand the Academic Volunteer and Mentor Service Program, \$10 million to continue the Student Academic Partnerships Program, \$28 million for workbooks for the standards-based Standardized Testing and Assessment Reporting program, (the “STAR” exam) and the High School Exit Exam (HSEE), and a \$123 million augmentation to fully fund (at \$350 million) the Governor’s Performance Awards at \$150 per eligible test taker in grades 2 through 11.

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**Other initiatives**

*Energy* – The Budget includes \$1 billion for programs to increase energy efficiency, reduce consumption, and increase the supply of electricity to help deal with the State’s energy crisis. These programs are designed to assist residents, small businesses, industry, agriculture, and State and local governments to meet the energy challenge confronting California. These proposals are to be developed in consultation with the Legislature during the 2001-02 Legislative Session.

*Air and Water Quality* – The Budget includes more than \$7 billion dollars for natural resources management and environmental protection efforts. Among the programs funded is one designed to reduce contaminated runoff that pollutes our public beaches and affects public health, another to acquire and restore coastal wetlands and habitat, and one to improve access to beaches and coastal trails. Other initiatives increase funding for a program to encourage the purchase zero emission vehicles to reduce air pollution through the replacement of conventional diesel engines with clean burning alternatives. The proposed budget includes \$70 million for acquisitions and improvement projects on rivers throughout the State and for specific river parkway projects on the Los Angeles, San Joaquin, Tuolumne, Sacramento, and Guadalupe rivers.

*Health and Human Services* – The Budget proposes more than \$62 billion in combined State and federal funds for public health and assistance programs. Among the major initiatives proposed is \$202 million to expand coverage under the Healthy Families Program to include uninsured adult



parents of children already covered who have incomes between 100 and 200 percent of the federal poverty level. \$115 million is also allocated for caseload growth associated with the Healthy Families program. In the Medi-Cal program, the budget proposes to use a \$170 million of the State's Tobacco Settlement Fund for selected Medi-Cal expenses. The budget also allocates \$350 million to hospitals as a one-time payment to settle issues related to previous years' reimbursement rates for hospital outpatient services and \$128 million to increase these rates by 30 percent as of July 1, 2001. Another half-billion dollars is proposed for initiatives to maintain Medi-Cal coverage to adults with eligible children and who fall below 100 percent of the poverty level and to continue Medi-cal coverage for eligible children up to age 19.

*Tax and User Fee reductions* – The Budget estimates that budget-year tax savings resulting from tax relief measures adopted last year will amount to \$2.3 billion. For individual taxpayers, beginning with the 2001 calendar year, the State will have reduced motor vehicle license fees by 67.5 percent, an estimated savings to vehicle owners of \$3.7 billion in 2001-02. For corporations, areas of tax relief include a reduction in the tax rate for all corporations, special rate provisions for “subchapter S” corporations, carryover of net operating losses, and credits for manufacturing investment and research and development.

As of January 1, 2001, the State sales tax rate was reduced from 5 percent to 4.75 percent, as a result of the “Sales Tax Trigger” provision enacted 1991 that requires a quarter-cent reduction in this tax rate if the State surplus exceeds 4 percent of General Fund revenues and transfers during a two fiscal-year period. The rate will return to 5 percent next January unless the surplus again exceeds this statutory threshold. The 2001-02 budget revenue forecast is based on the assumption that the surplus for the budget year will not be sufficient to trigger an extension of that lower rate into 2002. This provision lowering the State portion of the sales tax rate does not affect sales tax rate increases adopted at the local level.

*Public Health and Safety* – The Budget includes \$40 million for disbursement to High Intensity Drug Trafficking Areas (HIDTAs) throughout the State. HIDTAs are multi-jurisdictional law enforcement collaboratives dedicated to eliminating the production and distribution of illegal drugs in California. Another \$11 million is allocated to the California Methamphetamine Strategy (CALMS) program, which is operated by the Department of Justice. CALMS is a systematic approach that targets all facets of methamphetamine production and trafficking with an emphasis on preventing chemicals from being sold to criminals.

*Local government* – The Budget provides \$250 million in one-time discretionary funding for local government entities, to be allocated 50 percent on a per-capita basis and 50 percent based on local governments' contribution to their counties' respective Educational Revenue Augmentation Fund (ERAF). Several other local government initiatives

are funded in the areas of public safety, housing and community development, health and human services and transportation.

*Transportation* – The Budget proposes almost \$10 billion in 2001-02 expenditures for Caltrans from federal funds, various State funds and reimbursements to improve transportation. This is an increase of \$1.3 billion in total funds over 2000-01 and includes an increase in State General Funds of \$934 million. In 2000, the State established the Traffic Congestion Relief Fund (TCRF), a six-year, \$7 billion enhanced funding plan for state and local transportation needs. The TCRF is funded through the Transportation Investment Fund (TIF), which receives revenues from a quarterly transfer of the General Fund share of the sales tax on gasoline. Due to growth in gasoline sales tax revenues, the 2000 estimate for TIF is now more than \$8 billion, rather than the \$7 billion earlier. Specific CalTrans initiatives in the Budget include \$8 million for the “Advanced Toll Collection and Accounting System” on seven San Francisco Bay area toll bridges. This system allows the participating, equipped vehicles to progress through toll booths and be electronically scanned for later billing. \$21 million is allocated to double-track railways between Sacramento and Davis for the Capitol Corridor commuter train.

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**Summary** The Governor’s proposed State budget for the upcoming 2001-02 fiscal year continues many of the past two budget’s K-12 education themes, while relying to a greater extent upon one-time appropriations as a safeguard against declines in tax revenues. For California’s colleges and universities, the proposed State budget continues a year trend of increased investments, with the focus on collaborative efforts with K-12 education and for specific research initiatives. The budget fully funds public system enrollment growth and provides funds for cost-of-living adjustments. The budget also allocates revenues above those called for in the “Partnership” agreements with the California State and the University of California.

The State revenue picture continues to look bright, as tax revenues are again running ahead of expectations. However, the State faces the potential of revenue reductions over the coming year, if the economy cools off and the investment markets level off or decline. This is because much of the unanticipated gain in revenues these past 3 years has been derived from market activity. In addition, the tremendous surge in energy prices over the past 8 months has created a problem for California’s citizenry, local governments, and private sector entities and could become critical by this summer. Suggested solutions to the burgeoning energy crisis are all anticipated to be quite costly and how those costs will be borne is an open question.

As the State Legislature deliberates the proposed Governor’s budget in the coming months, public policy priorities will be established and the State spending plan for 2001-02 will become more focused.

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